

Energy UK Response - Consultation on the Early Phaseout of Unabated Coal Generation in Great Britain

26 February 2021

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses. We represent a diverse range of generators, of all sizes and technologies and remain technology neutral.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain

Executive Summary

Energy UK is fully supportive the Government's ambition to reach Net Zero by 2050 and welcomes the Government's broad intent to drive to go further and faster on decarbonising the power sector as we work towards our target. We also recognise that coal will have no part to play in our future energy mix. As noted by BEIS in the Introduction of the Consultation document- we remain proud of the fact that the UK is already among the most successful countries at decoupling emissions and economic growth and that since 1990 we have cut emissions by more than 40 per cent.¹ Furthermore, we view it as very positive progress that in 2020 we went over 4000 hours without coal generation and established a new record for the longest period without coal generation, set at 67 days.

The energy sector is already taking steps to deliver the objectives as set out in the Energy White Paper and the "Ten Point Plan for a Green Industrial Revolution". We know that delivering these objectives will require a significant amount of private investment which can be unlocked with a clear policy and market frameworks to ensure that decarbonisation is delivered at least costs to consumers, while maintaining UK's security of supply.

However, Energy UK members do not share a unanimous view as to whether bringing forward the current date of phasing out unabated coal till October 2024 is the most appropriate means for the Government to hit the Net Zero 2050 target.

On one hand, the move to unabated coal closure by October 2024 aligns with what is already in place within the Capacity Market (CM) emissions limits, which has already arguably made it clear that coal has no place in the future power system. Some Energy UK members acknowledge that there is a need to look at market design beyond the CM in the run up to 2050 and therefore there is logic to considering bringing forward coal phase-out in this context.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943817/consultation-coal-renewable.pdf

On the other, there are some concerns surrounding the new proposal that have been brought to our attention by some Energy UK members. We request that BEIS fully consider these concerns before reaching a final decision.

For ease of reference, a summary of our key asks is included in the table below. Overall, concerns from members are centred around the approach proposed, rather than the outcome itself, although some members do have concerns about ensuring security of supply: members are worried about unintended consequences, the precedent for other markets or technologies for delivering of net zero, and above all would like more evidence from Government in particular with regard to the Impact Assessment.

Summary of our Key Asks

Key Asks from Energy UK	
1	Energy UK would like to see more evidence from Government for moving back on this decision with regards to the three Policy Objective's set out within the Impact Assessment.
2	We recommend that BEIS considers security of supply for the winter period of 2025 and beyond and provides further information on how these are being considered
3	Ensuring there aren't any unintended consequences for other technologies with the proposed thresholds and rules, including undermining investor confidence in other technologies (such as Gas and Biomass) needed for the transition to Net Zero.
4	We would further welcome clarity from BEIS that none of the proposals outlined will impact ex-coal fired power stations (e.g., coal to Biomass or BECCS).
5	In the answer to Question 2 we request that the word 'solid' is included in the draft regulations
6	If BEIS is intent on implementing this change, we request that the role of Carbon Pricing in driving this transition away from coal and to ensure robust carbon pricing in the drive to Net Zero is considered.

General Feedback

Approach and Policy Intent

The Government sets out its Policy intent and intended affects in both the Consultation Document and accompanying Impact Assessment. The Policy Objectives are to (i) *demonstrate climate leadership* (ii) *reduce emissions of carbon dioxide and other harmful pollutants from the UK power sector* and (iii) *increase revenue certainty for investment in lower carbon plant*². Some Energy UK members have raised concerns regarding what constitutes good and stable policy making linking to the three objectives above:

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943820/early-coal-close-impact-assessment-.pdf.pdf

The voice of the energy industry

- On the first Policy Objective to '*demonstrate climate leadership*', Energy UK recognises that there is no doubt that coal in the UK will close by 1 October 2025 (the original phase out date) and we note that the UK is already a frontrunner in coal phase out policy on the global stage. The Impact Assessment has not explained how bringing the date forward to 1 October 2024 will further demonstrate climate leadership.
- Secondly, linking to the second Policy Objective, some Energy UK members believe that BEIS has not presented substantial evidence that bringing the date forward will have a material impact on emissions compared to the 2025 close date. The Impact Assessment itself expressly mentions that '*the monetised impact of bringing forward coal plant closure to 2024 is not significantly different from that of a 2025 closure*'- Energy UK would expect a stronger argument to serve as justification for the proposal.
- Again, regarding the third objective as set out by BEIS, to '*increase revenue certainty for investment in lower carbon plants*', we do not believe the Impact Assessment highlights how this proposal will achieve this. Energy UK believes investors need to have confidence that stable policy and market frameworks are in place for existing and future technologies, therefore, in this framework, BEIS needs to ensure that policy making is based on robust Impact Assessments.

Linking to the above points, as we acknowledge that decarbonisation is best delivered by a stable policy framework, some Energy UK members believe it is best driven by market measures being put in place as opposed to interventions. We note that market measures have clearly been very successful – the consultation itself notes that coal generation is now at a very low level. In this context, some Energy UK members believe that political interventions on an ad hoc technology specific basis increase perceived regulatory risk and undermine investor confidence.

On the other hand, a proportion of Energy UK membership do not believe the proposals represent a lack of stability within the policy landscape - noting the emissions limit on the Capacity Market from October 2024, which was consulted upon. As this is in place for the upcoming Capacity Market Auction (March 2021), some members believe these proposals to be timely and with a good lead time for implementation.

There is agreement that that if BEIS is intent on implementing this change, the role of Carbon Pricing in driving this transition away from coal and to ensure robust carbon pricing in the drive to Net Zero, should be considered.

Security of Supply concerns

We would like to take this opportunity to raise some substantial concerns regarding security of supply and stable electricity system operation held by a proportion of Energy UK members. This is particularly important at a time where Government is aiming to increase wind generation capacity and electrification for the uptake of Electric Vehicles and potentially consider a hard stop date for phasing out unabated gas in light of the 6th Carbon Budget recommendation. In the context of several Electricity Margin and Capacity Market notices over Winter 2020/21, despite significant demand suppression due to the nationwide Lockdown. We note that very little consideration was given to security of supply in the 2020 Energy White Paper³ and the Impact Assessment only focuses on security of supply for the year 2024. We would welcome further reassurance from BEIS as to work being done to ensure security of supply on our system during future years, beyond 2024, when demand increases, while technologies (such as CCUS and hydrogen) are yet to be developed and tested at scale.

³ <https://www.gov.uk/government/publications/energy-white-paper-powering-our-net-zero-future/energy-white-paper-powering-our-net-zero-future-accessible-html-version>

In this context, we would like to highlight that the 1 October 2024 Phaseout date will mean there will be no coal available on the system for the forthcoming winter 2024-25. Some Energy UK members believe that keeping additional reliable plant available during the winter period 2024/25 (October 2024- March 2025) seems prudent. For this reason, some members are supportive of a coal closure date of 31 March 2025 (6 months beyond the October 2024 date) and requests that BEIS considers this option.

Energy UK welcomes the fact that the Capacity Mechanism is in place to ensure security of supply and some Energy UK members trust that the Capacity Market will ensure that there is sufficient capacity on the system for 2024/25, in which coal will not participate. We would like to emphasise that the future integrity of the Capacity Market is paramount. In light of the security of supply concerns mentioned above, we ask that, if BEIS are intent on moving the coal closure date to 1 October 2024, we would welcome further information on how potential security of supply issues will be addressed for winter 2024/25.

However, we would also like to highlight that there is a school of thought within Energy UK membership that believe it would be simpler to legislate the closure of unabated coal, rather than have a unit-by-unit emissions performance standard.

Precedent set for other technology types and unintended consequences

Linking to our above points on investor confidence, some Energy UK members have concerns around the precedent that this approach might set for other generating technology types- in particular, the future of new unabated gas plants and biomass plants, which will play a part in delivering our 2050 Net Zero target.

In addition, some members believe that providing an end date for unabated gas will not bring investment forward for alternatives – the market framework and availability of proven deployable alternatives are the drivers for investment. However, we would like to reiterate that, while we acknowledge that investor confidence is not needed in new coal, some members have expressed concerns that BEIS changing prior decisions at short notice, as in this proposal, will not provide investor confidence in other generating technology types in the UK. Energy UK recognise that Gas generation has a crucial role to play in ensuring security of supply during the decarbonisation transition. Gas generation has provided an alternative lower carbon fuel to coal, however there is no lower carbon alternative to gas to help meet demand when there are insufficient renewables on the system. In this context, we recognise that a 15-year contract in this years' T-4 auction goes beyond 2035, meaning investor confidence in some technology types needed for long term security of supply such as new built CCGT or a smaller gas plants will be of concern to many Energy UK members.

We would like to take this opportunity to request that BEIS looks into any unintended consequences that may become apparent as a result of bringing coal phase-out forward by one year. As highlighted in our response to the CfD Amendments Scheme 2020 Consultation in May 2020⁴, we are keen that steps are taken by government to ensure that the change to the regulations to exclude new coal-to-biomass conversions does not lead to unintended consequences on the development and scale up of certain Negative Emission Technologies (NETs) which require biomass, such as BECCS. Energy UK noted in this consultation response that we agree with the CCC's view that NETs will play a crucial role in the UK's wider strategy to reach net-zero emissions by 2050, and that BECCS in particular will play a significant role. We encourage the Government to ensure any decision making now does not hinder the deliverability of this technology in the near future.

Response to Questions

⁴ <https://www.energy-uk.org.uk/publication.html?task=file.download&id=7532>

Question 1: Do you have any comments on the Government's intention to bring forward the ban on unabated coal generation from 1 October 2025 to 1 October 2024?

We welcome the opportunity to respond to this consultation and would like to take this opportunity to reiterate Energy UK's strong support for decarbonisation as set out above. As explained in the Executive Summary and General Feedback sections of our response, there are differing views amongst Energy UK members with regards to the proposals. We have used this consultation response to set out concerns regarding policy intent, approach taken by BEIS, security of supply and the precedent set for other technology types.

We encourage BEIS to consider the concerns highlighted by some Energy UK members and take them into careful consideration when making a decision.

Question 2: Do you have any comments on the proposed emissions intensity limit and its application? If you disagree with the proposal, please provide detailed reasoning. What are your views on whether a 300MWth threshold is necessary to avoid unintended consequences on other forms of generation?

Some Energy UK members believe that a 300MWth threshold is not necessary to avoid unintended consequences, and support consistent treatment across technologies regardless of size. We would like to suggest that the clarity of the proposed definition could be improved by adding the word "solid" as per highlight below.

"We propose defining "Solid Fossil Fuel" in line with the Energy Act 2013 as meaning: (a) coal, (b) lignite, (c) peat, and (d) any **solid** substance which (i) is produced directly from crude liquid petroleum, bitumen or any substance mentioned in (a) – (c) for use as a fuel in a Generating Unit, and (ii) when burned, produces a greenhouse gas (within the meaning of section 92 of the Climate Change Act 2008)."

Question 3: Do you have any views on how net life-cycle CO₂ emissions from biomass should be calculated?

As this consultation is specific to coal phaseout and market design beyond the CM we feel that it is not the appropriate vehicle to deliver our detailed views relating to the above question. This issue is more generic and no precedents should be set by this consultation.

At a high level, we note the Energy White Paper committed to publishing a biomass strategy and while we agree that the life-cycle emissions need to be considered, the approach adopted needs to align with wider agreed methodologies and any changes to methodologies require wider consultation. We also support the proposal to provide a designated Enforcement Authority, but in line with other standards, regular reporting should be imposed as part of Environmental Permit requirements. Ad hoc reporting is out of line with other standards, and the ETS, and does not provide the data needed to be sure of the effectiveness of the policy.

Are you aware of any coal units which will facilitate co-firing of coal and biomass beyond 1 October 2024, or any other reason which would necessitate the introduction of additional arrangements for monitoring biomass co-firing emissions other than those described in the 'monitoring and reporting' section?

N/A

Question 4: Do you have any comments on the Government's intention not to legislate to give the Secretary of State the power to suspend/modify the emissions limit in emergency circumstances?

There are two schools of thought within Energy UK membership that we would like to draw BEIS' attention to.

On the one hand some members do not see any need for legislative powers in this instance, noting that the Capacity Market should be able to ensure sufficient capacity in emergency circumstances. Retaining powers creates regulatory uncertainty & could weaken investment signals. Additionally, it can't necessarily be assumed that if powers are suspended that plant have the ability to respond.

On the other hand, other members support the option for Secretary of State to suspend/modify the emissions limit in emergency circumstances. Particularly in light of the three Capacity Market Notices already experienced this winter (2020/21) despite lower than 'normal' demand due to lockdown. Also taking into account that we have seen Calon Energy default on its CM agreements due to administrators removing the plants from the market.

Question 5: Do you agree with our proposal to provide a designated Enforcement Authority with powers to verify compliance on an ad hoc basis?

We agree that the proposed approach appears proportionate.

We would like to thank you again for the opportunity to respond to this consultation and put forward the viewpoints of several members for your consideration. We look forward to hearing your decision in due course. In the meantime, if you have any questions regarding our response, please do not hesitate to contact me using the details below.

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